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SUBJECT: HONDURAS: HURRICANE KATRINA IMPACT ON REMITTANCE
MIGHT BE LESS THAN FEARED

REF: A) TEGUCIGALPA 1845

1. According to two experts on remittance flows, the reduction in remittances from the U.S. to Honduras as a result of Hurricane Katrina could be much less severe than early estimates suggested. Ref A reported that there is a significant Honduran expatriate population in the New Orleans area -- variously estimated at up to 150,000 -- that was hard hit by Hurricane Katrina. Some initially estimated that the impact of the hurricane could reduce remittance inflows this year by USD 100 million or more. This reflected a very crude calculation that assumed: (1) the maximum number of Hondurans potentially resident in the affected region as 150,000, a figure that remains unconfirmed and could be significantly overestimated; (2) approximately one million Hondurans resident in the U.S, another figure that is unconfirmed and could be an overestimate; (3) projected remittances for 2005 of USD 1.5 billion, based on Central Bank of Honduras estimates; and (4) a resulting average remittance of USD 1,500 per Honduran expatriate per annum. In the worst case scenario -- a total halt in all remittances from all 150,000 expatriate Hondurans for the remainder of 2005 -- that would result in a remittance reduction of approximately USD 94 million.

2. EconChief spoke on September 9 with Juan Carlos Potasi, former President of the Central Bank of Uruguay and author of a soon-to-be-released study on capital flows and remittances in Honduras, and Hugo Castillo, former GOH Vice Minister of Finance and also an expert on financial flows. Potasi said that in his opinion the impact of Hurricane Katrina on remittance flows to Honduras will be minimal, since New Orleans does not appear to be a center of remittance transmission. Castillo agreed, citing the history of the Honduran expatriate population in New Orleans. According to Castillo, that community had its roots in a generational migration from the North Coast of Honduras, started at the turn of the twentieth century and originally linked to the banana trade. Many of the families now living in the New Orleans area have been established there for 50 years or more, he said, and recent emigration to that area has been driven by family reunification and not by job-seeking. Consequently, in his view, many of those families have broken their ties to Honduras, and are not likely sending remittances back to Honduras.

3. Neither Potasi nor Castillo offered an estimate of the likely drop in remittances. However, if we accept their analysis and conservatively assume only half of the community is sending remittances, and further use a more moderate figure for the size of the Honduran expatriate population in the affected area, we arrive at a much lower estimated reduction in remittances of perhaps USD 20 to 30 million dollars for the remainder of 2005, as contrasted with the 100 million reduction originally forecast. Compared to CY 2004 remittance flows of USD 1.12 billion, and projected CY 2005 remittance flows of USD 1.5 billion, this reduction is expected to have no noticeable impact on the Honduran economy.

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